table of contents

Letter of Transmittal ... 3
Corporate Profile ... 4
Chart of Sources and Uses of Funds ... 4
Highlights ... 6
The Chairman's Report ... 7
The President's Perspective ... 8
Geography of Operations (Map) ... 10
Conventional Oil and Gas ... 10
- Exploration ... 10
  - Land ... 10
  - Geophysics ... 11
  - Drilling ... 12
- Development ... 13
  - Drilling ... 13
  - Reserves ... 13
- Production ... 13
- Enhanced Recovery ... 13

Heavy Oil ... 14
- Exploration ... 14
  - Land ... 14
  - Geophysics ... 14
  - Drilling ... 14
- Development ... 15
- Drilling ... 15
- Reserves ... 15
- Production ... 15
- Enhanced Recovery ... 16
- Transportation ... 16
- Environmental Protection ... 16

Upgrading ... 17
Research and Development ... 18
Economic Review and Management Analysis ... 19
Financial Statements ... 23
Auditors' Report ... 30
Five Year Review ... 31
Board of Directors ... 32
Corporate Executives ... 32

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AUG 30 1982
REGINA

units of measure common to the petroleum industry

	Imperial Units	Metric (SI) Units
Length	1 foot (ft)	0.305 metre (m)
	1 mile	1.609 kilometres (km)
Area	1 acre	4047 square metres (m^2)
	1 section	260 hectares (ha)
	2.46 acres	1 hectare (ha)
Volume	1 cubic foot (ft^3)	0.0282 cubic metre (m^3)
	1000 cubic feet (Mcf)	28.174 cubic metres (m^3)
	1 barrel (bbl)	0.159 cubic metre (m^3)
	6.289 barrels	1.0 cubic metre (m^3)

Metric Unit Abbreviations

mm — millimetre	m^2 — square metre
m — metre	ha — hectare
km — kilometre	m^3 — cubic metre

letter of transmittal

Regina, Saskatchewan
March 26, 1982

To His Honour
The Honourable C. Irwin McIntosh
Lieutenant Governor of the Province
of Saskatchewan

Dear Sir:

I have the honour to submit herewith the annual report of the Saskatchewan Oil and Gas Corporation for the year ended December 31, 1981. It includes the financial statements for the period in the form approved by the Treasury Board, and in accordance with the Saskatchewan Oil and Gas Corporation Act.

I have the honour to be, Sir,

Your obedient servant

Elwood Cowley

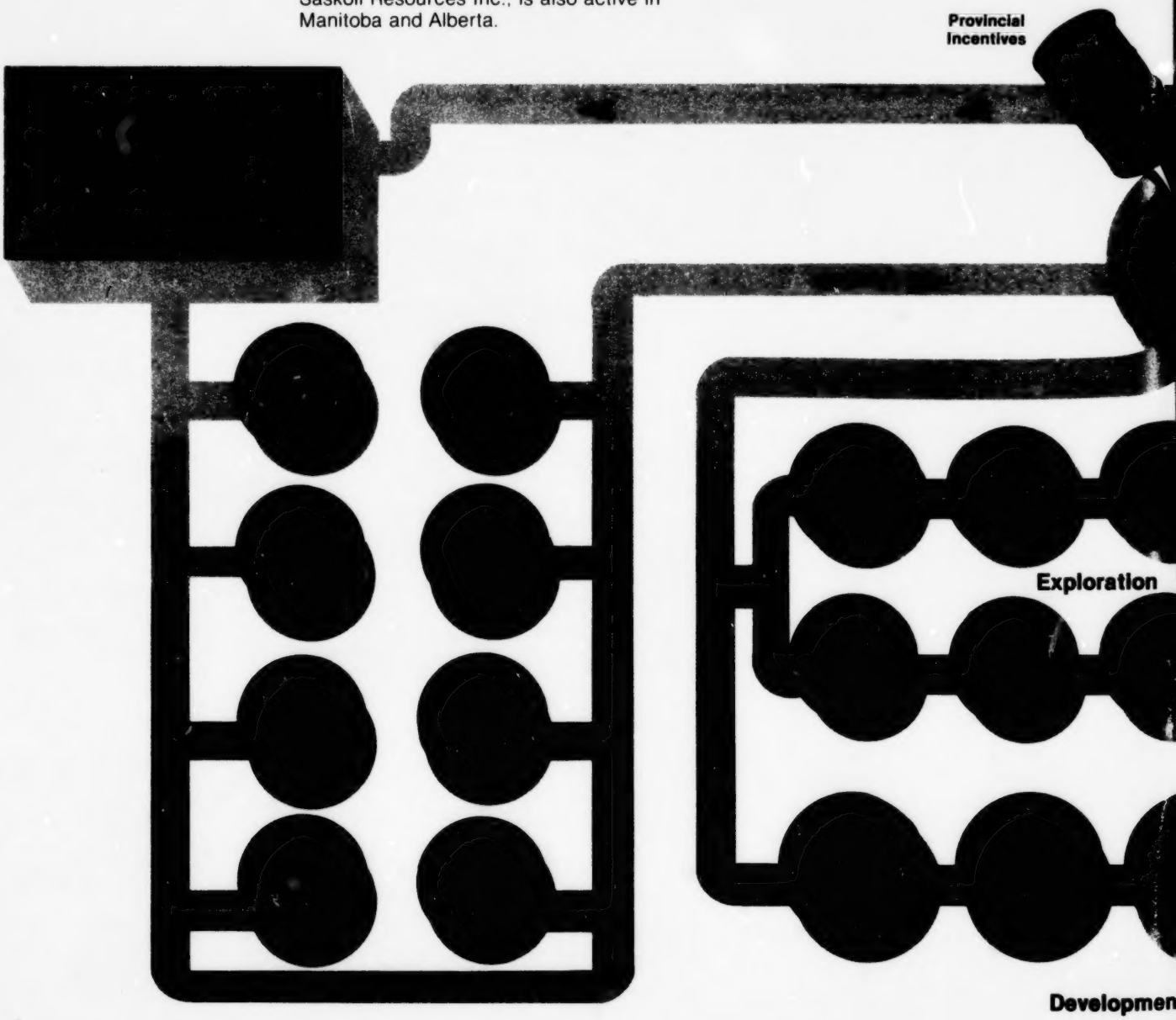
Elwood Cowley
Minister-in-charge of the
Saskatchewan Oil and Gas Corporation

Pump Jack at Bone Creek

Profile

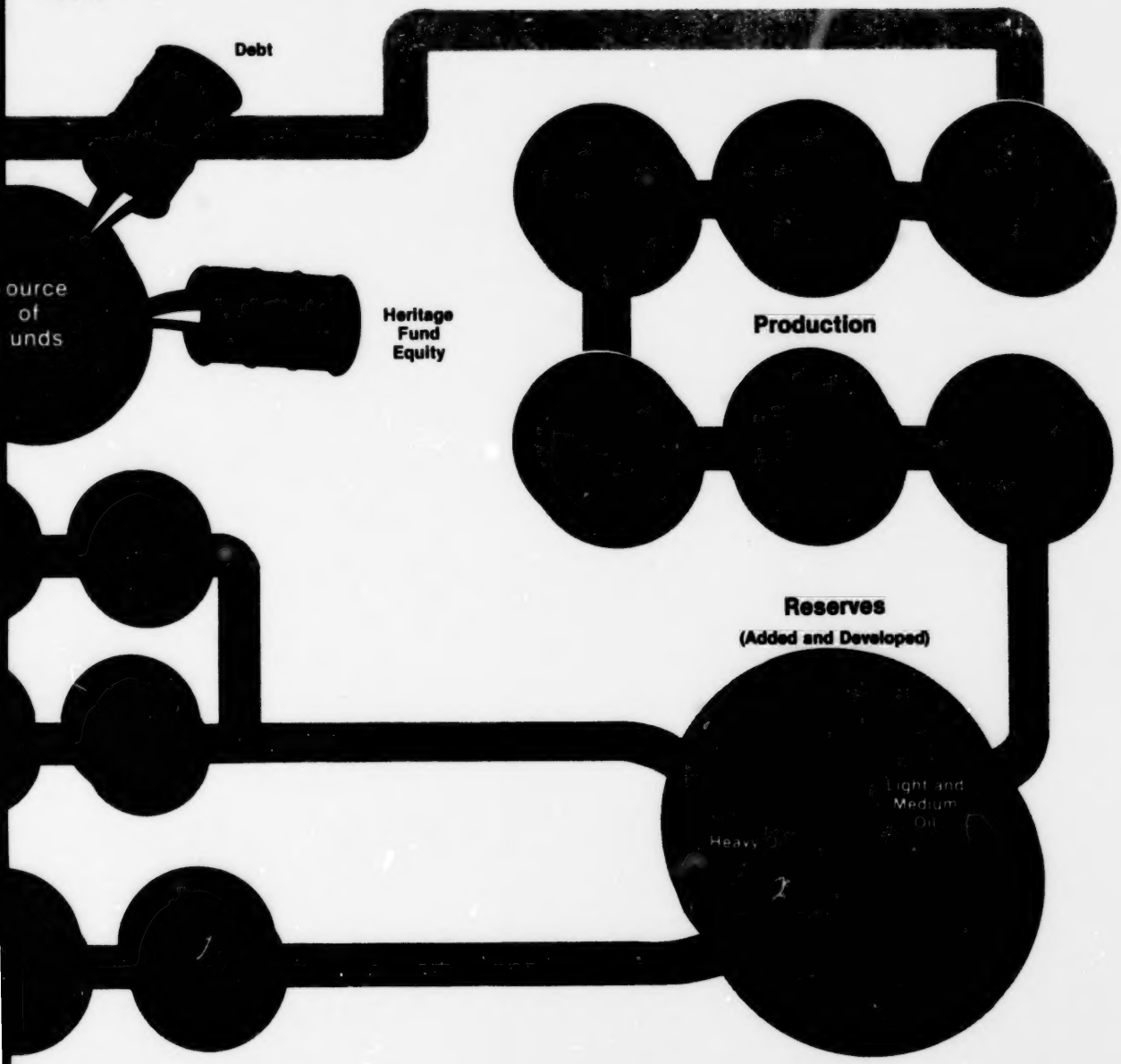
The Saskatchewan Oil and Gas Corporation was established in 1973 as one vehicle for implementing the Government of Saskatchewan's resource development policy. Saskoil engages in exploring for and developing petroleum resources to provide the maximum benefit to the shareholders. It carries on its activities both in its own right and through joint ventures. Saskoil centres its activities principally in Saskatchewan but, through its wholly-owned subsidiary, Saskoil Resources Inc., is also active in Manitoba and Alberta.

In working towards attaining one of its objectives, that of becoming a significant presence in Saskatchewan's petroleum industry, Saskoil continues to increase its assets, reserves, and activities. Over the past five years Saskoil has participated in more than 900 wells, has more than replaced its production, has grown from 80 employees to 285, and has produced more than 3 000 000 m^3 of oil and gas.



The head office of the Corporation is located at 1500 - 1920 Broad Street in Regina; the mailing address is P.O. Box 1550, Regina, Saskatchewan S4P 3C4.

The Corporation's district offices are located in Estevan, Swift Current, Coleville, and Maidstone. Saskoil Resources Inc. is located at Corporate head office in Regina and maintains a branch office in Calgary, Alberta.

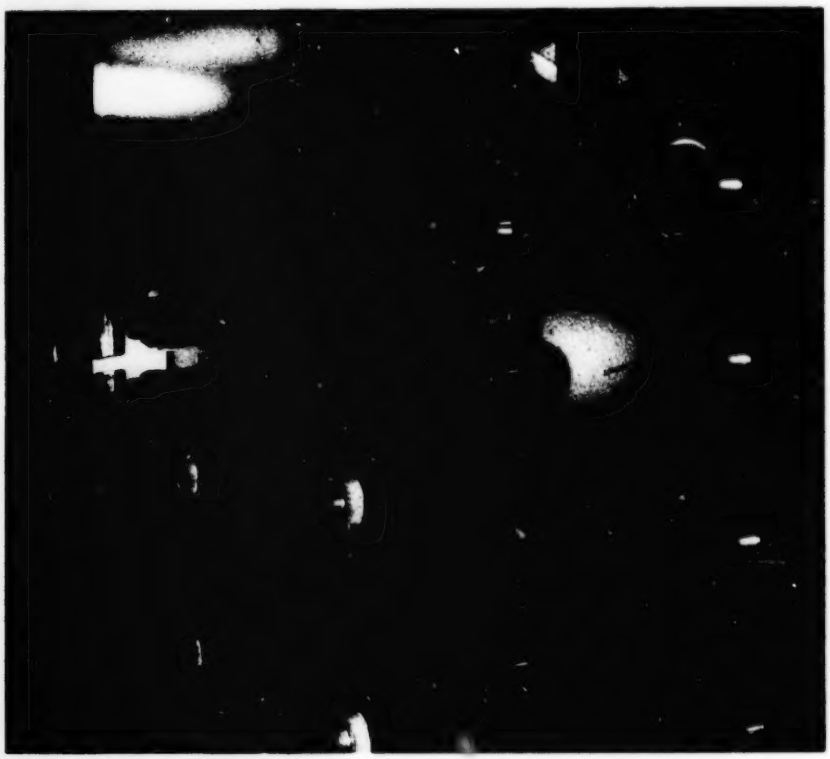


highlights

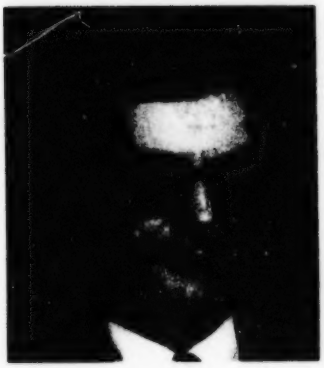
($000)	1981	1980
Financial:		
Gross Revenue	$60,743	$60,576
Royalties	26,210	26,013
Gross Revenue after Royalties	34,533	34,563
Total Expenses	31,651	28,827*
Petroleum and Gas Revenue Tax	3,686	—
Net Earnings (Loss)	(804)	5,736*
Retained Earnings	22,332	23,136*
Net Capital Expenditures	66,812	41,975
Production:		
(000) m^3	548	659
Reserves:		
Oil m^3 (000)	5,708	5,014
Gas 10^3m^3 (000)	1,219	877

* (Restated)

Automatic control panel at Bone Creek.



the chairman's report



In 1981, the Saskatchewan Oil and Gas Corporation sustained a loss in net earnings of approximately $800 000.

This result is indicative of the difficulties which beset the industry in Saskatchewan and western Canada throughout 1981.

At year end 50 percent of the province's production suitable for use in Canadian refineries was shut in. This is directly attributable to producer reaction to the National Energy Program. In addition to working economic hardship on the producers, their employees, and the service industries, the adverse effects of the National Energy Program ripple throughout Canada.

The shut in Saskatchewan crude, which would have earned an average price of $21.30 per barrel, was displaced by foreign crude at an international weighted average price at Montreal of $41.30 per barrel. The federal government's Import Compensation Program makes imported crude cheaper than domestic crude. The refineries chose the cheaper crude. A cautious estimate of the direct cost to Canadians is $400 000 per day.

The further long term cost to Canadians in foregone discoveries that might have been made by the more than 150 rigs which left western Canada in 1981 is incalculable, but it must be considered significant, and it must be added to the growing cost of the federal government's National Energy Program.

The industry generally reacted to the National Energy Program by cutting back production and by cancelling exploration programs. The Saskatchewan Oil and Gas Corporation, by contrast, maintained its pace with the expectation that the new federal-provincial energy pricing and revenue sharing agreement would provide an acceptable return to the producers. It persevered, to the extent possible, in its aggressive efforts to explore for and to develop Saskatchewan's petroleum resources. In those endeavours in which it acted solely on its own behalf, Saskoil maintained its momentum by drilling more wells and producing more heavy oil than in previous years.

The new Saskatchewan-Canada energy pricing and taxation agreement was completed in October and was designed to provide the industry with a five-year period of stability. While the new agreement is cause for some optimism, it does not solve all the problems created by the NEP — either from an industry or a Saskoil perspective.

From Saskoil's standpoint, a constitutional issue of taxation of one level of government by another arose. In the National Energy Program and the subsequent energy agreement, the federal government introduced new wellhead taxes. Until the taxation-of-the-crown issue is resolved Saskoil will remit to the federal government equivalent grants in lieu of taxes. This cost the Corporation $3 686 000 in 1981.

From the industry point of view, one of the important aspects of the new agreement is the provision which allows NEW oil to attract world price. This provision was intended to further the federal government's self-sufficiency objective by stimulating new exploration activity and encouraging development of domestic production through primary and enhanced recovery methods. This objective is vulnerable to changing international conditions and would be in jeopardy should there by a sustained international oil surplus with the attendant reduction in world price.

This price vulnerability combined with Ottawa's import compensation and export taxation policies creates uncertain market conditions for Saskatchewan crude in 1982.

On behalf of the Board of Directors, I wish to thank everyone at Saskoil for the efforts put forth in 1981 and to commend them individually and collectively for their achievements.

Elwood Cowley

Honourable Elwood Cowley,
Chairman

the president's perspective

The Corporation's results for 1981 reflect the difficulties it experienced during the past year and, indeed, they reflect the difficulties experienced by other members of the industry engaged in upstream activities. On the positive side, however, Saskoil did make considerable progress in positioning itself for future health and achievements.

Like other companies, Saskoil's problems in 1981 were due largely to elements in the external environment over which it had no control. The industry reacted to the National Energy Program by cutting back production — both in Saskatchewan and Alberta. As a result of these cutback decisions taken by some of its partners, Saskoil ended 1981 at 40 percent below the budgeted production for the year and 20 percent off the previous year's production.

The decision taken by the Province of Alberta to cut back its production compounded the difficulties already facing Saskatchewan producers. Because of the sulphur content of Saskatchewan's conventional light crudes, they have to be blended with sweeter Alberta crudes to make them acceptable to Canadian refineries. The reduced volume of Alberta crudes also had the effect of reducing the volume of saleable Saskatchewan crudes. Canadian refineries, faced with daily crude requirements, responded to the cutbacks by increasing their contracts for foreign crude.

While the federal-provincial energy agreements provide mechanisms to rectify some of the producers' difficulties and to increase the financial return to them, it takes time to reverse the chain of events begun early in 1981 and to get the supply/transportation/refining systems back to normal.

The federal-provincial energy agreements provide for gradually increasing the price of OLD oil, developed before 1981, to 75 percent of world price and permitting NEW oil, developed after 1980, to receive the world price. Quality differentials for gravity and impurities will apply to both categories, effectively reducing the value of heavy oil by as much as 15 percent.

In spite of the difficulties, we remain convinced that our abundant oil and gas resources are needed, and that they can be found and made available to Canadians at reasonable cost. The Board of Directors of this Corporation, with the concurrence of the Crown Investments Corporation of Saskatchewan, has decided that the Corporation should continue its high level of exploration and development activities — activities that are predominantly future oriented.

It is likely that by the turn of the decade, half of the provincial oil production will be by methods other than primary recovery. Saskoil is taking steps to be at the forefront in mastering and developing the new techniques for enhancing the production and life of the reservoirs.

Saskatchewan's abundant heavy oil resources present unique transportation and marketing challenges. Transporting heavy crude depends to a considerable extent on the availability of condensate from Alberta for use as diluent; m. 'keting heavy oil depends upon the continuing market availability of the northern tier refineries in the United States. Both these aspects of the business are beyond the Corporation's control. Because heavy oil is more marketable and more transportable as a synthetic crude, Saskoil became an active member in a group of companies planning to construct an upgrading plant in Saskatchewan. Not only will this upgrading facility increase the value of the heavy oil resource, it will create jobs and generate significant spinoff benefits.

We have established demanding long-range goals and activities for the Corporation and, as a result of the efforts of our people, we made significant progress during 1981 toward achieving and completing them. For this I wish to thank them. If continued success during the next year or two were dependent only on their efforts and energy, I would have no cause for concern. Prudence, however, dictates taking account of federal government taxation and marketing policies as well as an apparently deteriorating international supply/demand situation.

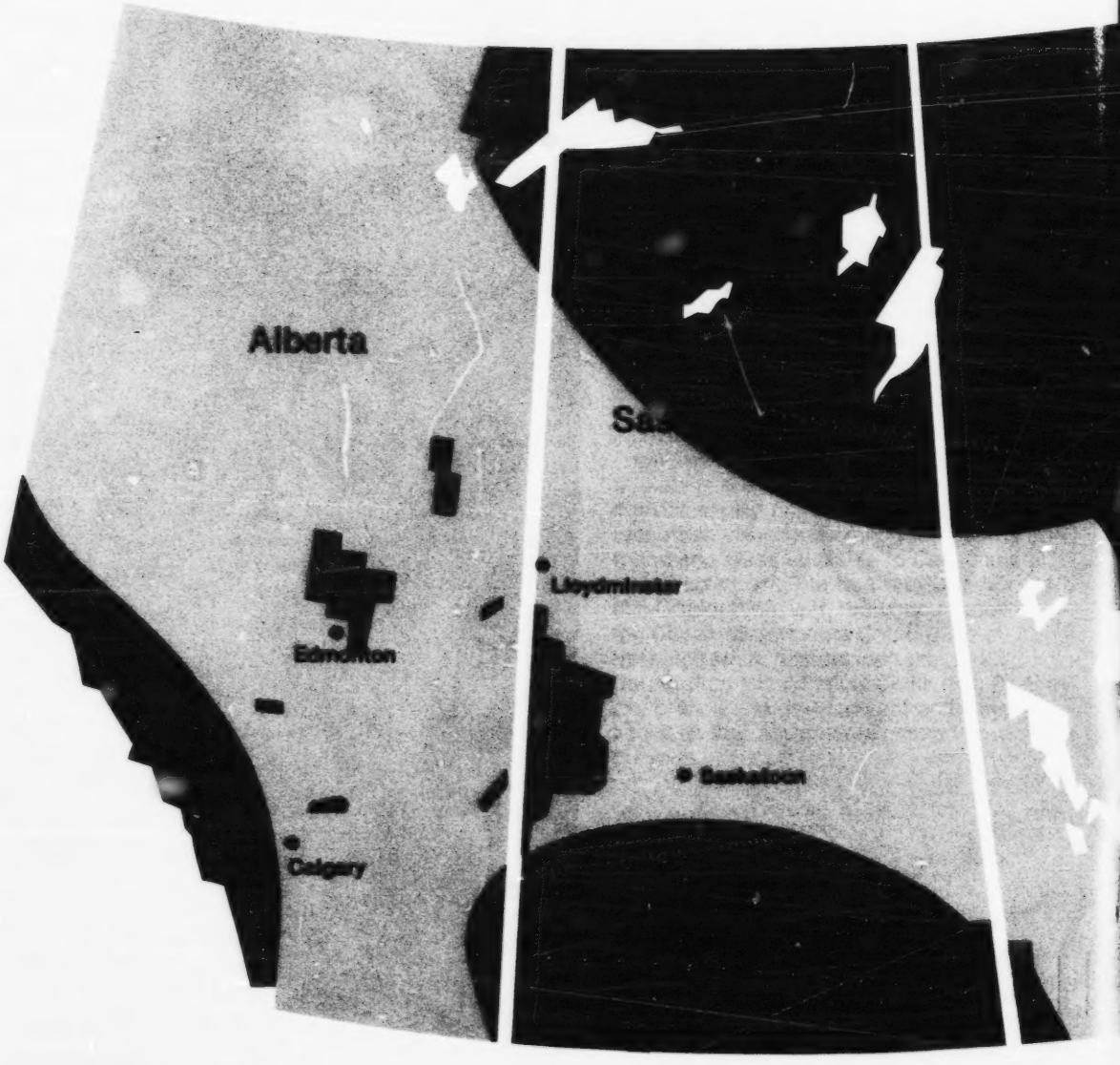
John R. S. Sadler
President

In the West Central District (Kindersley area) Saskoil is experimenting with new methods such as this hydraulic, electronic and pneumatic (HEP) lift, to improve the recovery of heavy oil

conventional oil and gas

Oil & Gas Exploration
During 1981, the Saskatchewan Oil and Gas Corporation carried on aggressive exploration programs for conventional oil in Saskatchewan, Manitoba, and Alberta. The majority of the Corporation's gas activities were in Alberta.

Land
Saskoil's Land programs were successful in netting the Corporation an interest in a total of 57 440 acres in Saskatchewan, Manitoba, and Alberta. Saskoil's exploration efforts in Manitoba were concentrated in the southwest section of the province. As part of this effort, Saskoil purchased 10 940 acres of mineral rights at a cost of $321 000.



In southeast Saskatchewan, Saskoil acquired an interest in approximately 32 600 acres of mineral rights for conventional light/medium oil exploration at a cost of $1.9 million. In addition, Saskoil acquired an interest in 11 000 acres in the southwest for oil and gas exploration at a cost of approximately $750 000.

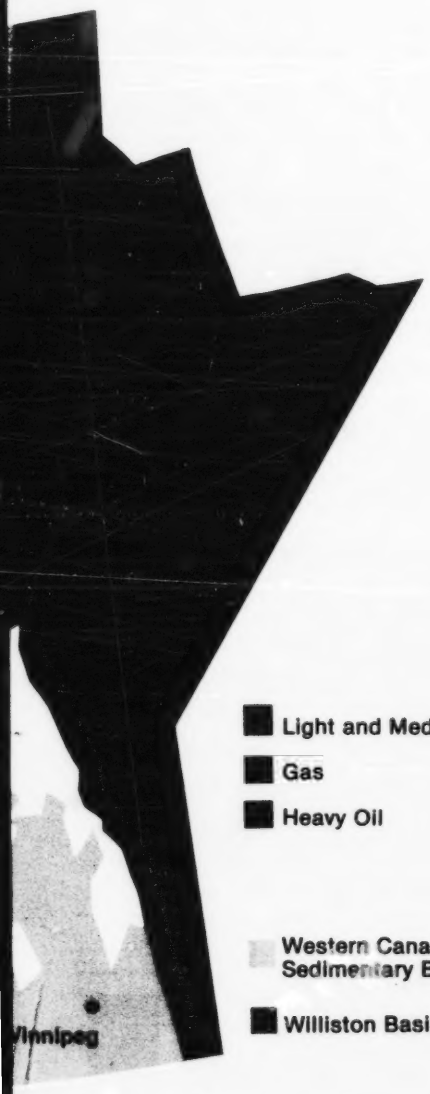
The Corporation's primary activity in Alberta, was in gas exploration. This was dictated by the location of mineral rights transferred from the Saskatchewn Power Corporation. Although found throughout the province, the major interests are concentrated on the shallow gas prospects of eastern Alberta. In addition, the Corporation acquired an interest in approximately 2 900 acres in the east central region of the province at a cost of $51 000.

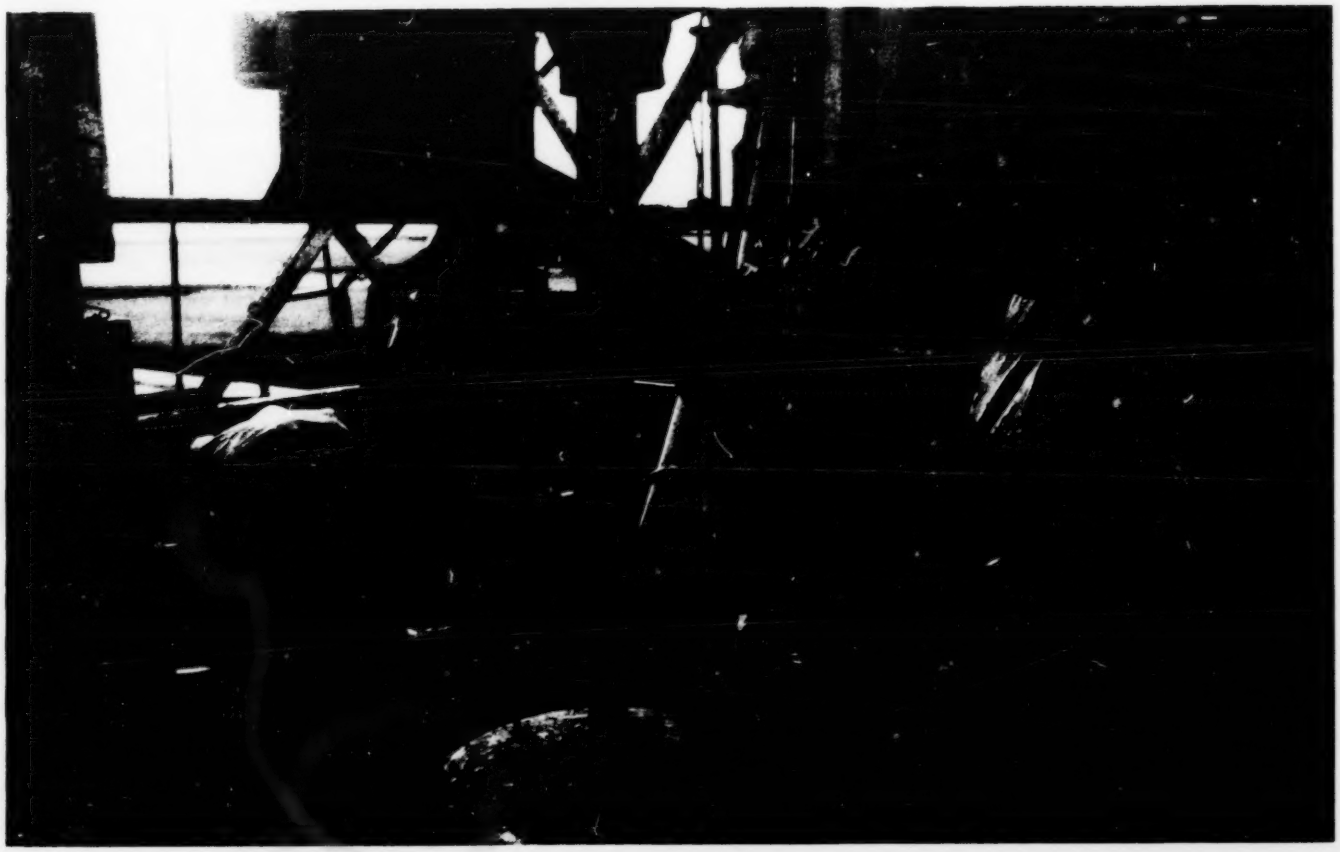
Geophysics

In 1981 the Corporation obtained 941 kilometres of seismic data for use in evaluating conventional oil and gas prospects at a cost of $2.2 million. Of the total, it obtained 221 kilometres of seismic data in the Kirkella and other areas of Manitoba. This will assist greatly in evaluating the oil potential of southwest Manitoba and adjacent Saskatchewan areas.

Saskoil concentrated its conventional oil and gas related geophysical activity in Saskatchewan in the southeast area of the province where it acquired 413 kilometres of seismic data at a cost of $774 000.

In Alberta, Saskoil undertook 307 kilometres of seismic evaluations on oil and gas prospects, primarily in the northwest and west central regions, at an approximate cost of $1.0 million.





Development drilling near Marsden

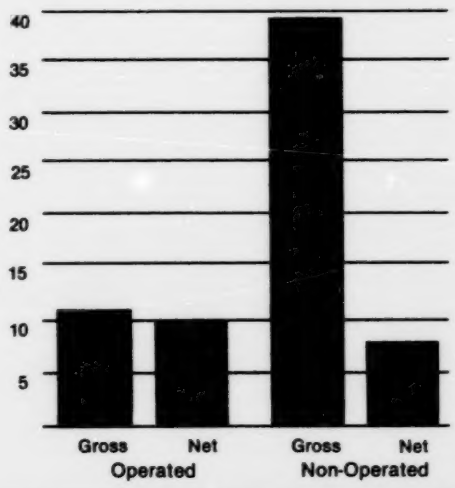
Exploration Drilling

In the conventional oil and gas sector of its business, Saskoil participated in 69 wells in 1981. Of the total, 49 were exploratory wells and 20 were development wells.

On the exploration side, drilling for conventional light/medium crude and for gas increased by 25 percent in 1981 compared to 1980. While this seems to be contrary to the industry trend, it is due to two factors: firstly, Saskoil-operated conventional oil and gas exploratory drilling increased 57 percent in 1981; secondly, Saskoil non-operated exploratory drilling for conventional oil and gas increased by 17 percent, and this was principally gas activity on Saskatchewan Power Corporation lands in Alberta.

The Corporation's exploration programs in the conventional light/medium crude and gas identified an estimated 480 142 m^3 of oil-in-place and an estimated 460 million cubic metres of gas-in-place.

Exploratory Wells
Light/Medium Oil and Gas (Number of wells)



Conventional Oil & Gas Development
During fiscal 1981, Saskoil made capital expenditures on the development of light and medium oil and gas, totalling $5.5 million. These were directed toward drilling development wells, completions, and production facilities.

Development Drilling
Although Saskoil participated in 20 development wells, development drilling in 1981 for conventional oil and gas declined 30 percent from 1980. This decrease is a direct result of cutbacks in partner-operated development drilling.

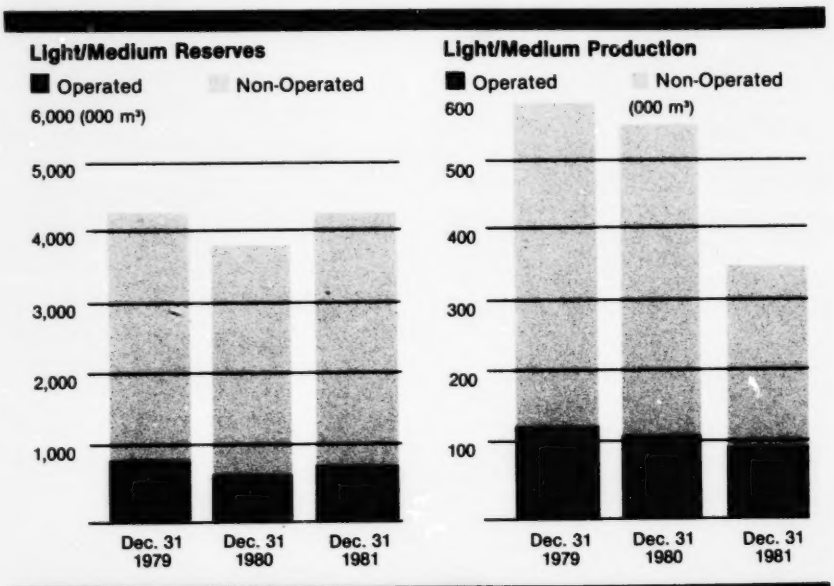
Reserves

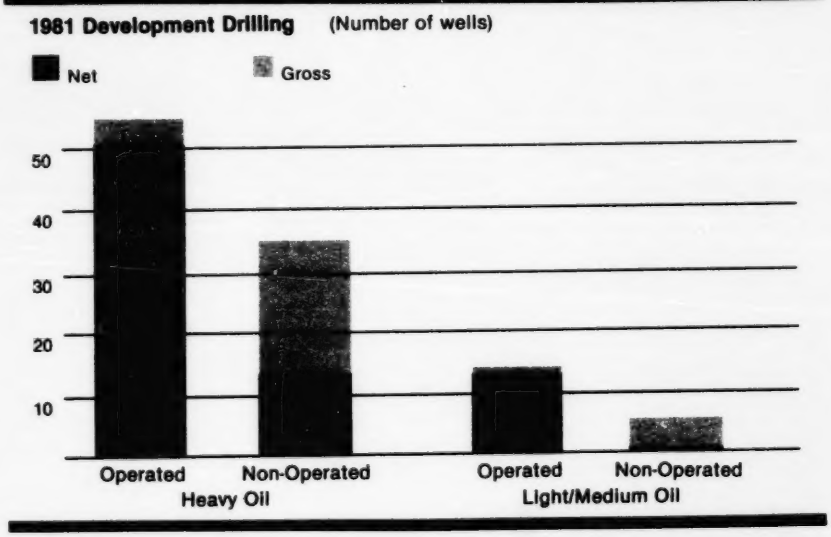
Reserves of light and medium crude oil increased by 12 percent from 3 843 240 m^3 at December 31, 1980, to 4 302 385 m^3 at December 31, 1981. Saskoil-operated reserves increased by 27 percent from 559 574 m^3 to 710 920 m^3, while non-operated reserves increased by nine percent from 3 283 666 m^3 to 3 591 465 m^3.

Production
Light, medium oil production decreased 36 percent, from 552 291 cubic metres in 1980 to 355 192 cubic metres in 1981. Saskoil-operated production, however decreased only 12 percent, from 112 549 cubic metres to 99 280 cubic metres. Decreases in Saskoil-operated production resulted from refineries reducing their nominations in the face of cutbacks in Alberta light crude production. In non-operated production a decrease of 42 percent, from 439 742 cubic metres to 255 912 cubic metres came as a result of cutbacks by operating partners.

Saskoil constructed a battery facility during the year at West Kirkella in Manitoba, where operated production increased from 388 cubic metres in 1980 to 6 381 cubic metres in 1981.

Enhanced Recovery
During the year, the Corporation began evaluating enhanced recovery potential at the Bone Creek Unit in southwestern Saskatchewan. Pending partner approval of this project during 1982, a field pilot could be constructed in late 1983. In other enhanced recovery activities, the Corporation is involved in feasibility studies of polymer-augmented water flood recovery projects in the Rapdan and Instow Units in southwest Saskatchewan.





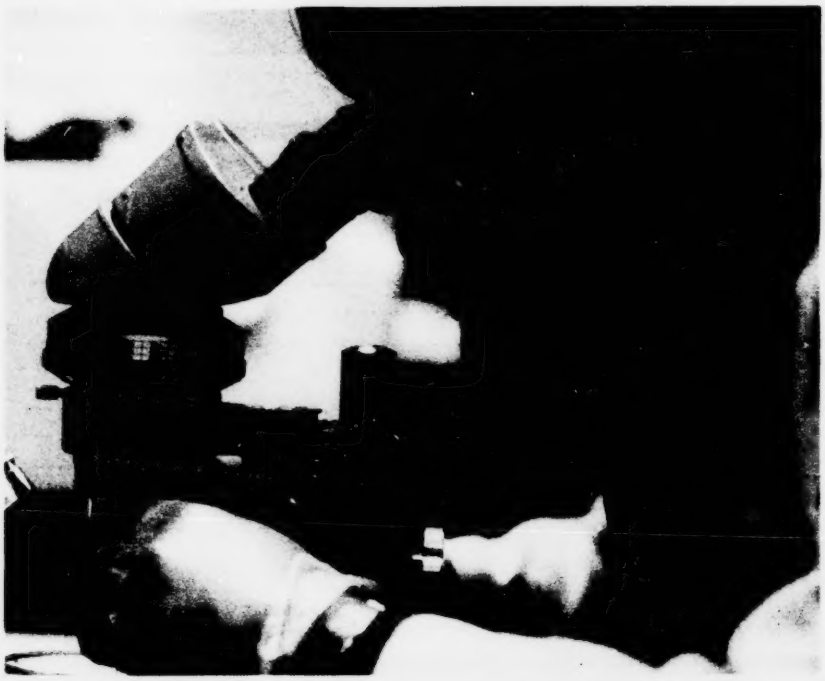
Heavy Oil Exploration

Heavy oil is a major component of Saskoil's total corporate activity. Individually, and with partners, Saskoil continued its aggressive exploration effort in 1981 with capital expenditures of more than $16.7 million. This is more than 50 percent of the total exploration activity throughout 1981. The Corporation concentrated this activity in the northwest and west central areas of the province. Eastern Alberta, however, also holds promise for heavy oil activity.

Land

During 1981, Saskoil made major land purchases in the heavy oil area acquiring an interest in 32 crown land parcels comprising 26 000 acres and costing $7 million, of which 72 percent or 18 700 acres, is wholly owned. The remaining 7 300 acres are under joint venture operatorship. These joint venture activities include continuing work in the Saskatchewan Heavy Oil Project (SHOP), the Primate Agreement, and the North Battleford Heavy Oil Project. In 1981, within SHOP land Saskoil netted 5 100 acres at a cost of approximately $1.5 million. In addition, Saskoil netted 2 100 acres of mineral rights through joint venture purchases in the North Battleford Heavy Oil Project area and at Primate.

A geologist examines drill cuttings.



Geophysics

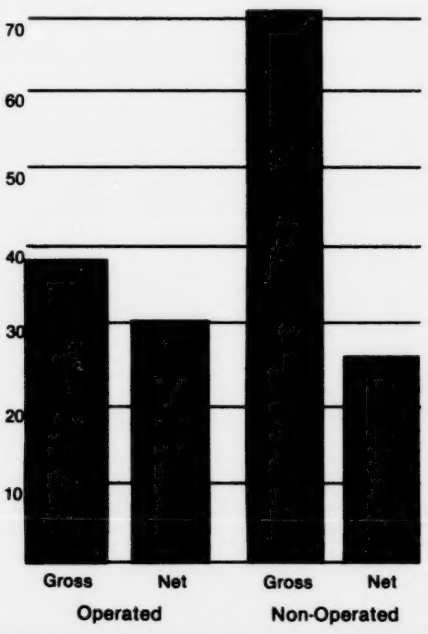
In related geophysical work, the Corporation allocated about 45 percent of the 1981 seismic budget to evaluating heavy oil prospects. The total activity included 784 kilometres of seismic work, costing $1.9 million; it was divided equally between the northwest and west central regions of the province. Other major geophysical initiatives included development seismic work for the Plover Lake pool and evaluations of properties in the Turtleford, Waseca, Freemont, and Luseland areas.

Exploration Drilling

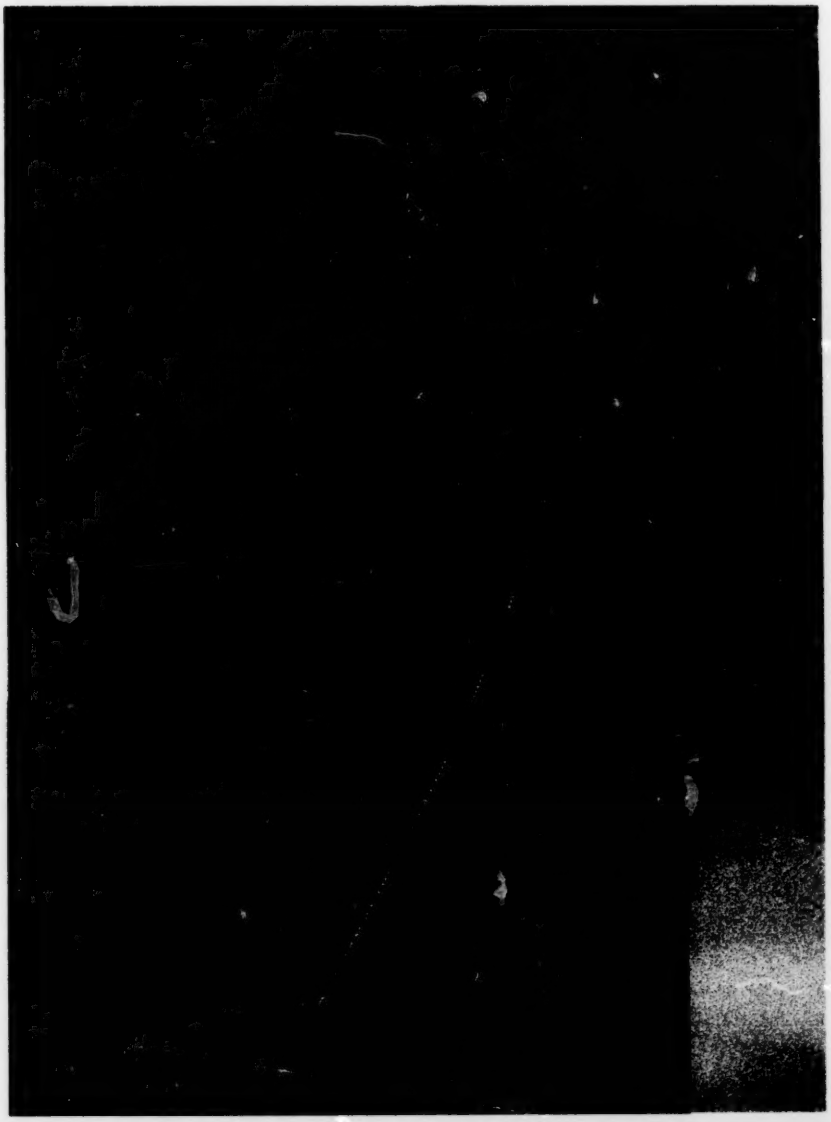
Saskoil participated in 199 heavy oil wells in 1981. The exploratory component of the total drilling program was 109 wells. Saskoil, in its own right, drilled 38 heavy oil exploratory wells which identified an estimated 20 million cubic metres of oil-in-place. Saskoil's share from 71 non-operated heavy oil exploration wells is approximately 25 000 000 m^3 of oil-in-place. Of the total estimated 45 000 000 m^3 of heavy oil-in-place, up to five percent is recoverable through primary techniques.

Heavy Oil Exploratory Wells

(Number of wells)



At various intervals in its life cycle, a pump jack will require servicing because of wear and tear, and corrosion in down hole equipment.



Heavy Oil Development
The Corporation's capital expenditures on heavy oil development exceeded $26 million for 1981. These capital expenditures were directed toward development wells and production facilities.

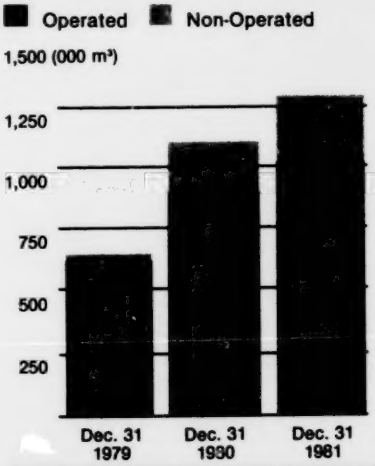
Development Drilling
Saskoil participated in 90 heavy oil development wells in fiscal 1981, a drop of 25 percent from 1980. The number of heavy oil development wells drilled by the Corporation is up by 25 percent over last year. The Corporation's partners decreased their heavy oil development wells by 55 percent in 1981.

Reserves
Saskoil achieved an increase in its total heavy oil reserves in 1981 of 12 percent, from 1 148 470 m^3 at December 31, 1980, to 1 286 075 m^3 at December 31, 1981. Saskoil-operated reserves increased by 12 percent from 899 322 m^3 to 1 004 874 m^3, while non-operated reserves increased by 13 percent from 249 148 m^3 to 281 201 m^3.

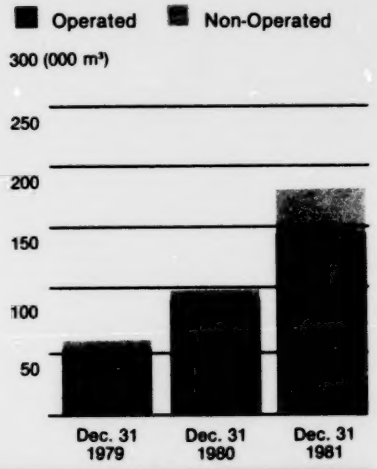
Production
One of Saskoil's major successes during 1981 was a significant increase in heavy oil production. Total heavy oil production increased by 80 percent in 1981 from 100 973 m^3 to 181 989 m^3. More than half of this increase was due to Saskoil-operated production, which rose from 91 457 m^3 to 138 349 m^3 and represented 75 percent of the Corporation's total heavy oil production.

The Cactus Lake Reservoir contributed significantly to the Corporation's non-operated production which yielded 43 640 m^3 contrasted with 9 516 m^3 in 1980. These high production levels for heavy oil were achieved in spite of foregone sales of Saskoil's operated production of more than 15 000 m^3 due to condensate shortages and export marketing problems.

Heavy Oil Reserves



Heavy Oil Production



Pump jack and storage tank seem to disappear in the Northwest horizon

Enhanced Recovery

In order to recover more than the usual five to eight percent of the heavy oil-in-place, based on primary recovery methods, Saskoil plans to undertake thermal recovery projects at a number of its reservoirs during the next several years. The research and planning work is furthest underway on the Plover Lake reservoir which was discovered in 1980 and which is estimated to contain approximately 20 million cubic metres of oil-in-place. During 1982, field tests will be undertaken to inject steam into two wells. Selection of the ultimate recovery process will be made later in the year. Present plans envisage pilot plant construction in 1983.

Saskoil is involved with partners in two additional enhanced oil recovery (EOR) projects, the North Battleford Heavy Oil Project at Meota and the St. Lina Project in Alberta. Both are cyclic steam stimulation projects.

During 1981, the North Battleford project was doubled in size from nine to eighteen producing wells. Furthermore, exploration activities in the surrounding area indicate promising potential for further development.

An expansion of the St. Lina Project, which had been deferred because of partner decision, is now underway.

Saskoil, with its partners, is studying the feasibility of an EOR pilot project for the Cactus Lake reservoir.

Transportation

In 1981, Saskoil participated in a joint venture with Petro Canada, Gulf Canada Resources Inc., and Murphy Oil in constructing the Cactus Lake Pipeline. This 66 km system, comprising a ten inch heavy oil blend line and a four inch diluent return system, connects the Cactus Lake reservoir to Kerrobert for subsequent transmission of oil via the Interprovincial Pipeline system.

Environmental Protection

Saskoil believes that the social and bio-physical environment must be respected in planning, constructing and operating all of its projects. It further recognizes that it must be particularly conscientious in minimizing the impact of its activities on surface land owners. Therefore, during the conceptual and planning stages of its projects, the Corporation takes an inventory of the social and bio-physical environment in order to predict and understand the potential impacts of various projects. This knowledge enables the Corporation to take measures to enhance the positive elements of a project and mitigate the negative impact.

Saskoil is currently involved in a number of social and environmental impact studies with its partners in the Saskatchewan Heavy Oil Project and in other projects in which it is active.

In early 1981 Saskoil participated in the formation of a consortium of five companies to investigate the feasibility of building a heavy oil upgrading plant in Saskatchewan. The participating companies and their respective interests in the project are as follows:

Husky Oil Operations (Operator)	25 percent
Saskoil	25 percent
Gulf Canada Resources	20 percent
Petro Canada	15 percent
Shell Canada	15 percent

By year end the consortium had completed Phase I of the project. It selected a preferred site near Archydal in the Moose Jaw area and an alternative site near Cloan in the Wilkie area. In addition, the consortium obtained options on two parcels of 960 acres, one at each of the locations. As an integral part of Phase I, the consortium identified the area of feedstock availability as the production belt extending from the Lloydminster region to the Fosterton-Dollard fields in the southwest.

The many faces of energy — solar, wind, electricity, and petroleum products

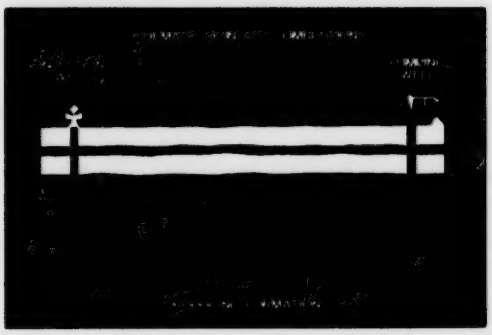
research and development

Preparing analytical calibration solutions.

The Research and Development Division was established in the fall of 1980, for the purpose of providing support to the operating divisions and helping to achieve the short and long term objectives of the Corporation. The Research and Development Division moved into its own building in June of 1981 and began to develop laboratory facilities. The analytical laboratory will be completed early in 1982 and the petroleum recovery process laboratory will be ready early in 1983. In 1981, the division undertook research in the areas of exploration, petroleum recovery, production, downstream processing, and alternative energy sources.

During 1981 Saskoil and Dome Petroleum reached a joint agreement to produce carbon dioxide for application in enhanced recovery projects. Saskoil, Dome, and the Saskatchewan Power Corporation have signed agreements for extracting carbon dioxide from the flue gases of a power plant. A $1.0 million pilot plant will be commissioned in May of 1982 and it will obtain site-specific data for carbon dioxide extraction.

In addition, Saskoil's Research and Development group began studies on coal liquefaction, heavy oil lifting equipment and techniques, and heavy oil upgrading processes.



In situ combustion holds great promise for improving recovery from Saskatchewan's heavy oil fields.

Economic Review
To place a review and analysis of Saskoil's performance during 1981 in perspective, a short summary of the major features of the National Energy Program (NEP) and the subsequent federal-provincial energy agreements is in order.

The National Energy Program
The NEP was introduced in October, 1980 and was modified to a degree in February, 1981. The energy negotiations between the provinces of Alberta, British Columbia, and Saskatchewan further modified the NEP during the latter part (September and October) of 1981.

The main features of the NEP and the energy agreements so far as Saskoil is concerned in 1981 are taxation, oil pricing, the petroleum incentive program, and Canadianization.

Taxation
Taxation under the NEP had several components, including the Petroleum and Gas Revenue Tax (PGRT), the federal export tax, the Natural Gas and Gas Liquids Tax (NGGLT), the Petroleum Compensation Charge (PCC), as well as modifications to the federal income tax system. In addition to these taxes, a new tax, the Incremental Oil Revenue Tax (IORT), was introduced during the federal-provincial agreements in September and October, 1981.

A review including PGRT, the federal export tax, and IORT is most appropriate at this time.

Petroleum and Gas Revenue Tax
The PGRT is a federal tax assessed at a rate of eight percent (for 1981) on gross crude oil sales less direct lifting costs. No other deductions are allowed. This tax is neither recognized as an expense at the federal or provincial level of income taxation nor for royalty purposes. The tax rate for 1982 has been increased to a net level of 12 percent.

Federal Export Tax
The federal export tax levied by the federal government is generally equal to the difference between the domestic price of oil and the international price of that oil. Under the NEP, one half of this tax would go to the two producing provinces, Alberta and Saskatchewan. This tax and the proposed sharing arrangement will not directly affect producers or consumers.

Incremental Oil Revenue Tax
The Incremental Oil Revenue Tax (IORT) is a new tax that was introduced during the federal-provincial energy agreements. Incremental Oil Revenue is defined to be the amount by which the energy agreement prices for OLD oil exceed the prices set out by the National Energy Program in 1980. The tax calculated on this incremental oil revenue applies at a rate of 50 percent after deducting provincial Crown royalties. No other deductions are allowed.

Oil Pricing
The NEP established a new schedule of prices for Canadian oil production and a new price system to blend the costs of different sources of oil consumed in Canada into a weighted-average price. The NEP specified price increases for conventional oil, tertiary recovery oil, and synthetic oil for a ten-year period. The highest price, that for synthetic oil, was limited by a ceiling equal to international price.

The energy agreements reached between the provinces and the federal government have altered the pricing and revenue sharing arrangements set out in the NEP in October, 1980. The agreements have resulted in oil price schedules over a five-year time horizon.

Saskoil's head office, Regina

These prices are based on whether the oil produced is NEW or OLD rather than on whether the production mechanism is conventional, tertiary, or synthetic.

Another important feature of these agreements is the introduction of quality differentials for all types of oil whether light, medium, heavy, or synthetic.

Again, the price of NEW oil is limited by the international price for oil of a similar quality. Generally speaking, the prices outlined by the energy agreements provide for more rapid initial increases than the NEP of October, 1980.

Petroleum Incentive Program (PIP) and Canadianization

The Petroleum Incentive Program (PIP) was designed to encourage investment by Canadian companies in the oil and gas business by providing direct incentive payments to Canadian firms for exploration and development.

The framework for this program provides for different levels of incentive payments based on whether the expenditures are exploration or development, on Canada lands or on Provincial lands, and is based on the Canadian Ownership Rate (COR) of the applicant.

Plant used for water flooding in South West District

The incentive payments range from a low of zero for companies with less than 50 percent COR to a maximum of 80 percent of eligible expenditures for companies with a high (greater than 65 percent) COR for exploration expenditures on Canada lands.

Generally speaking, exploration expenditures attract higher levels of incentive payments than development; Canada lands attract a higher level than Provincial lands; and high COR applicants attract higher incentives than low COR applicants. The effect of this feature of the energy pricing agreement on Saskoil will be addressed in the Management Review and Analysis.

Management Review and Analysis

Although the Corporation's capital program activity was below what was initially expected for the year, a significant growth was recorded compared to 1980. A negative reaction to the National Energy Program by a number of the Corporation's partners caused this lower-than-expected level of activity. Total capital expenditures increased approximately 60 percent: from $42 million in 1980 to $66.8 million in 1981 with 65 percent directed toward the heavy oil resources in the province of Saskatchewan.

From a results point of view, these programs have increased the Corporation's net reserves to 5.7 million m^3 in crude oil and 1.2 million m^3 in natural gas.

In addition, a significantly increased productive capacity was added as a result of these reserve additions. However, production of crude oil for 1981 totalled only 548 000 m^3, down 20 percent as compared to 659 000 m^3 of production during 1980.

This drop in volume was again linked to the federal government's policies and the National Energy Program. Early in the year, export volumes of southwest Saskatchewan crude were temporarily reduced as the National Energy Board increased the export tax on crude oil shipments going to the eastern United States. These tax increases resulted in an export price for Saskatchewan crude that was no longer competitive from the United States buyer's point of view. This caused a temporary cancellation of sales until the tax was reduced.

The operating divisions participate in oil spill exercise at Kenosee Lake

Another significant event that resulted in production cutbacks was the staged reduction in Alberta crude oil production during 1981. Southeastern Saskatchewan crude oil is blended with Alberta crude so that the combined product can be processed by central Canadian refineries. The Alberta cutbacks caused the refiners to reduce the volume of crude oil they normally nominate from southeastern Saskatchewan because they are unable to process this type of crude by itself.

Even though the federal-provincial energy agreements were signed during September and October of 1981, production volumes did not immediately return to normal levels. During the course of the year, the refineries contracted for additional shipments of foreign crude to offset the cutbacks in western Canada. These contracts were for periods of time up to six months, which consequently continued to displace western Canadian crude oil beyond the signing of the federal-provincial agreements.

The combined effects of these events resulted in production volumes that were 40 percent lower than those anticipated for 1981.

The impact of these cutbacks on the Corporation was severe. Operating costs in the oil business tend to be relatively insensitive to intermittent cutbacks in production volume. Consequentiy, these cutbacks reduced cashflow more dramatically than they reduced operating costs.

At the same time, the Corporation has been undergoing extremely aggressive growth as measured by increases in capital expenditures, reserve additions, and significant growth in office and field staff. Corporate staff increased to 285 during the year compared to 180 in 1980. Although the majority of office staff efforts are directed towards future business activity and investments, this growth does contribute to total operating costs.

In summary, higher per unit costs of producing oil caused by production cutbacks, general inflationary pressures, and real growth in staffing and research activities have resulted in total operating costs for the year increasing by $5 million.

Net earnings for the year have been reduced from $5.7 million in 1980 to a net loss of $804 000 for 1981. In addition to the reduction in production volumes already described, the most significant factor contributing to this net loss was the new federal Petroleum and Gas Revenue Tax (PGRT) totalling $3.7 million in 1981. This tax was introduced as part of the NEP in 1980; however, it was not until the Canada-Saskatchewan agreement was signed in October, 1981 that it became apparent that Saskoil would have to pay an equivalent grant in lieu of this tax to the federal government. Net earnings before this tax were $2.9 million.

This is an appropriate time to look ahead to 1982, to consider the consequences of the NEP and energy pricing agreements and to attempt to foresee their impact.

The PGRT will increase in magnitude during 1982 as a result of two factors: the tax rate has been increased from eight percent to 12 percent; and increasing the wellhead prices will increase the base on which the 12 percent tax applies. The IORT will become payable by Saskoil during 1982 on all OLD oil production. The combined effects of this IORT and PGRT are expected to result in a 1982 federal tax burden on Saskoil three or four times greater than for 1981. For some Canadian members of the oil industry, the NEP and energy agreements are not all bad news. Higher taxes are combined with higher prices and incentives under the Petroleum Incentives Program (PIP).

Unfortunately, Saskoil is not one of those Canadian companies that will be able to participate in the PIP payments. On the surface, Saskoil appears to pass all eligibility tests for such grants. For all intents and purposes, however, the Saskatchewan Oil and Gas Corporation has been designated a foreign-owned corporation with an effective COR of zero.

Eligibility for the grants is tied to the income tax system, and is not associated with the new federal taxes the Corporation pays by way of PGRT and IORT. The federal government argues that the introduction of PGRT and IORT was necessary because the income tax system was not gathering sufficient revenue from the oil industry. In addition, the introduction of an incentive program outside the scope of the income tax system could more directly and appropriately reward Canadian investment. In light of these arguments, there seems to be no rationale for associating PIP eligibility with the income tax system. Saskoil's continued ineligibility for these incentives will severely impair its competitive position in oil and gas exploration and development in 1982 and beyond.

consolidated statement of financial position

	As at December 31: 1981	1980
	(thousands of dollars)	
Assets		
Current		
Cash and short term deposits	$ 4,892	$ 8,384
Accounts receivable	11,351	15,705
Incentives receivable (Note 6)	1,635	1,783
Materials and supplies inventory	3,449	3,069
Prepaid expenses	1,164	962
	22,491	29,903
Property and equipment (Note 5)	168,876	109,773
	$191,367	$139,676
Liabilities and Province's Equity		
Current		
Accounts payable and accrued liabilities	39,535	27,540
Long Term Debt (Note 8)	35,000	35,000
Province of Saskatchewan's Equity		
Advances (Note 4)	94,500	54,000
Retained earnings	22,332	23,136
	116,832	77,136
	$191,367	$139,676

(see accompanying notes)

consolidated statement of operations and retained earnings

	For year ended December 31: 1981	1980
	(thousands of dollars)	
Revenue		
Crude oil and natural gas sales	$33,804	$33,875
Other	729	688
	34,533	34,563
Expenses		
Operating costs	$20,461	$15,218
Depletion	5,678	8,656
Interest (Note 9)	3,481	3,094
Depreciation and amortization	2,031	1,859
	31,651	28,827
Net earnings before taxes	2,882	5,736
Federal petroleum & gas revenue tax	3,686	—
Net (loss)/earnings after taxes	(804)	5,736
Retained earnings, beginning of year as restated (Note 3)	23,136	17,400
Retained earnings, end of year	$22,332	$23,136

(see accompanying notes)

consolidated statement of changes in financial position

	For year ended December 31: 1981	1980
	(thousands of dollars)	
Financial resources were provided by		
Operations		
Net (loss)/earnings	$ (804)	$ 5,736
Depletion	5,678	8,656
Depreciation and amortization	2,031	1,859
	6,905	16,251
Equity advances	40,500	20,000
Long term debt		5,000
	47,405	41,251
Financial resources were used for		
Acquisition of property and equipment	66,812	41,975
Decrease in working capital	$ 19,407	$ 724

(see accompanying notes)

notes to consolidated financial statements december 31, 1981

1. Summary of Accounting Policies

The following summary of significant accounting policies contains a description of the accounting methods and practices that have an important impact on the Corporation's financial statements.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the wholly owned subsidiary company, Saskoil Resources Inc.

b) Joint Ventures

Substantially all of the Corporation's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Corporation's proportionate interest in such activities.

c) Exploration and Development Costs and Depletion

The Corporation follows the full cost method of accounting whereby all costs related to the exploration for and development of oil and gas reserves, whether productive or non-productive, are initially capitalized in two areas of interest, conventional oil and gas and heavy oil. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, and overhead directly related to exploration activities. Costs capitalized are being depleted by area of interest on the revenue depletion method based on proved developed reserves as determined by Corporation engineers and valued at an estimated net revenue from each product based on prices established under the Energy Pricing and Taxation Agreements.

Production and other equipment are initially recorded at cost. When these assets are retired or disposed of, these costs and related accumulated depreciation are cleared from the accounts, and any resulting gain or loss reflected in operations. Maintenance and replacement items are charged to expense as incurred and improvements are capitalized.

d) Depreciation and Depletion

The introduction of the National Energy Program in October 1980 and the signing of the Federal-Provincial Energy Pricing and Taxation Agreements in September 1981 have established a five year contractual pricing structure for oil and gas production in Canada. Under these changed circumstances, the Company has based charges for depletion and depreciation of production facilities on production revenues rather than on production quantities. Estimated future revenues are based on proved reserves as determined by Company engineers and on prices not exceeding those set by the Energy Pricing and Taxation Agreements. As a result, the 1981 provision for depreciation and depletion is $8,726,000 less than it would have been, had the calculation been based on production quantities.

Depreciation is provided on the basis and at the rates set out below:

Asset	Depreciation or Amortization Basis	Rate
Office Furniture and Equipment	Straight Line	10%
Vehicles	Straight Line	20%
Leasehold Improvements	Straight Line Over Lease Life	10 - 14%
Gas Reservoir	Straight Line Over Contract Life	5%
Computer Hardware and Software	Straight Line	20%
Laboratory Equipment	Straight Line	12½%

Wellhead and exploration equipment, tanks, flowlines, field equipment and buildings are depreciated using the production revenue method, based on proved development reserves as determined by Corporation engineers and valued at an estimated net revenue from each product, based on prices not exceeding those established under the Energy Pricing and Taxation Agreements.

e) Materials and Supplies Inventory

Materials and supplies are valued at the lower of cost and replacement value.

2. Status of Corporation

The Corporation was established in accordance with the Saskatchewan Oil and Gas Corporation Act, Chapter S-32, Revised Statutes of Saskatchewan, 1978. The accounts of the Corporation are consolidated in the annual financial statements of the Crown Investments Corporation of Saskatchewan.

3. Change in Accounting Policy

Prior to 1981 the Corporation followed the full cost method of accounting for oil and gas operations using only one area of interest. During the year, the Corporation retroactively modified its full cost method of accounting for oil and gas operations to reflect two areas of interest, conventional oil and gas and heavy oil.

As a result of this change, retained earnings at January 1, 1981 have been increased by $2,253,000 with a corresponding increase in property and equipment. Had the former method of accounting been applied, depletion, depreciation and amortization for 1981 would have been $6,875,000. Net earnings for 1980 have been increased by $1,361,000 by applying this change retroactively.

4. Advances

All advances are non-interest bearing and do not have specific repayment terms.

	1981	1980
	(thousands of dollars)	
Crown Investments Corporation of Saskatchewan	$34,000	$34,000
Saskatchewan Heritage Fund	60,500	20,000
	$94,500	$54,000

5. Property and Equipment

Property and equipment consists of:

	Cost	Accumulated Depreciation & Depletion	1981 Net	1980 Net
		(thousands of dollars)		
Property acquisition and exploration and development thereon	$147,939	$35,639	$112,300	$ 82,843
Production equipment	40,884	10,040	30,844	16,654
Other equipment	4,179	1,079	3,100	2,449
Deferred	2,731	—	2,731	—
Under construction	19,901	—	19,901	7,827
	$215,634	$46,758	$168,876	$109,773

6. Incentive Credits

Pursuant to The Oil and Gas Incentives Regulations, 1978, the Corporation is entitled to incentive credits from the Province of Saskatchewan. For the year ended December 31, 1981 the Corporation earned $2,612,000 (1980 — $3,493,000) under this incentive program. This amount has been included in the financial statements as a reduction of property and equipment.

7. Commitments

a) To earn the maximum interest in the Saskatchewan Heavy Oil Project (SHOP), exploration and development expenditures of approximately eleven million dollars over the next five years are required.

b) During the next year the Corporation is committed to exploration expenditures of approximately two million dollars on Saskatchewan Power Corporation lands.

c) Commitments under long term lease agreements, the longest of which expires in 1989, will approximate one million two hundred thousand dollars in the fiscal year ending December 31, 1982.

8. Long Term Debt

Province of Saskatchewan:	
Matures November 1, 1985 with interest at 8.5% per annum	$25,000,000
Crown Investments Corporation of Saskatchewan:	
Matures March 1, 1985 with interest at 12.75% per annum	5,000,000
Matures December 9, 1985 with interest at 13.25% per annum	5,000,000
	$35,000,000

9. Interest Expense

	1981	1980
	(thousands of dollars)	
Interest on long term debt	$3,458	$2,853
Other interest costs	23	241
	$3,481	$3,094

10. Remuneration of Directors and Senior Officers

The Corporation's eleven Directors (eleven in 1980) received, in aggregate, $22,800 in remuneration for 1981 ($1,225 in 1980). The seven senior officers (six in 1980) received, in aggregate, $376,840 in salaries for 1981 ($226,619 in 1980). Certain positions were unoccupied for portions of both the current year and the prior year.

11. Related Party Transactions

Included in these Consolidated Financial Statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlements are described separately in the Consolidated Financial Statements and the notes thereto.

auditors' report

To the Members of
The Legislative Assembly, Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Oil and Gas Corporation as at December 31, 1981 and the consolidated statements of operations and retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting principles described in Note 3, on a basis consistent with that of the preceding year.

The financial statements for the preceding year were examined by the Provincial Auditor.

Clarkson Gordon

Regina, Canada
March 15, 1982

Chartered Accountants

Financial: (000)	1981	1980	1979*	1978/79*	1977/78*
Total Assets	$191,367	$139,676	$92,559	$77,155	$65,278
Province's Equity	116,832	77,136	50,506	42,489	35,963
Gross Revenue	60,743	60,576	50,424	49,266	40,804
Royalties	26,210	26,013	21,747	22,669	16,802
Total Expenses	31,651	28,827	24,888	20,671	18,348
Net (Loss)/Earnings After Taxes	(804)	5,736	3,888	5,888	5,744
Retained Earnings	22,332	23,136	18,888	17,488	11,888
Funds Provided from Operations	6,905	16,251	13,888	16,888	16,879
Capital Expenditures	66,812	41,975	27,888	27,888	4,888
Working Capital (Deficiency)	(17,044)	2,363	5,888	5,888	10,888
Wells Drilled	268	302	188	188	88
Employees	285	180	188	88	88
Production: $(000)m^3$	548	659	888	888	888
Reserves: Oil $m^3(000)$	5,708	5,014	4,888	4,888	3,888
Gas 10^3 $m^3(000)$	1,219	877	888	888	888

* These years have not been restated for either the effects of the accounting policy change to the full cost method of accounting (explained in Note 3 of the Notes to the Consolidated Financial Statements).

1980 has been restated to reflect the retroactive effects of this change.

board of directors

Hon. Elwood Cowley, Regina
- Chairman
- Minister of Mineral Resources

Hon. Robert G. Long, Lloydminster
- Minister of Highways

David S. Dombowsky, Saskatoon
- President, Potash Corporation of Saskatchewan

Douglas H. Fullerton, Ottawa
- Business Consultant

Roy E. Lloyd, Saskatoon
- President, Saskatchewan Mining and Development Corporation

John C. Mooney, Tisdale
- Accountant

Christine Pike, Waseca
- Farmer

Paul Riviere, Saskatoon
- Member, Board of Governors and Executive, Co-operative College of Canada

Secretary to the Board:
Elisabeth Kassian, Regina

corporate executives

John R. S. Sadler
- President

Dale M. Christensen
- Vice-President, Resource Development

William J. Douglas
- Vice-President, Exploration

Thomas S. Bamford
- Acting Vice-President, Finance & Corporate Services and Director, Planning & Special Services

Wayne I. Ferguson
- Director, Corporate Affairs

Robert J. Hodgson
- Director, Human Resources